

Directors' Report

Dear Shareholders,

Assalamu Alaikum

The Board of Directors of RAK Ceramics (Bangladesh) Limited is pleased to present this Directors' Report, along with the audited financial statements of the Company for the year ended 31 December 2018, and the Auditors' Report thereon, for your valued consideration, approval and adoption.

Principle activities

RAK Ceramics (Bangladesh) is engaged in the manufacture and sale of ceramic tiles, bathroom sets and sanitary ware products. The Company offers a wide range of tiles and sanitaryware products in the ceramic sector of Bangladesh since the year 2000. Over the years, the Company has created industry-leading designs and patterns for wall and floor tiles, borders and corners, etc. Many of RAK Ceramic's models come in modular designs which offer ample choice to our customers. The unique ambience created using our ceramic and gres porcellanato tiles have appealed to even the most discerning customers.

Industry outlook and possible future developments

Detail about industry outlook and possible future developments in the industry are discussed in the 'Industry outlook and possible future developments in the industry' on page 31 and 'Management discussion and analysis' on page 34 of Annual Report.

Segment-wise performance

RAK Ceramics (Bangladesh) operates with an annual standard production capacity of 10.32 mn sqm of tiles and 1.45 mn pieces of sanitaryware with over 41 active designs, ensuring the widest range of products available in the industry. Details about segment-wise or product-wise performance is discussed in the 'Description of the performance of the company and its subsidiaries' reporting on page 38 of Annual Report. Financial results The Company reported consolidated sales of BDT 6,830.78 mn in 2018, against BDT 6,956.18 mn reported in 2017. Consolidated gross profit of BDT 2,514.98 mn in 2018 against BDT 2,704.96 mn reported in 2017. Consolidated net profit of BDT 890.63 mn in 2018 stood against BDT 1,018.01 mn achieved in 2017. Details of operational results of the Company are discussed in the 'General Review of Performance-2018' on page 28 of Annual Report.

Appropriations of profit and key operating and financial data of preceding five years

The Directors are pleased to report the financial results for the year 2018, and recommend the following appropriations:

(Amount in BDT mn)

Particulars	2018	2017
Profit before tax	1,225.93	1,414.60
Less: Provision for tax	335.30	396.59
Profit after tax *	890.63	1,018.01
Add: Un-appropriated profit brought forward	1,445.45	1,269.57
Profit available for distribution	2,336.08	2,287.58
Less: Appropriation of dividend	707.39	842.13
Un-appropriated profit C/F	1,628.69	1,445.45

Profit after tax is exclusive of non-controlling interest. Key operating and financial data of the preceding five years is given in 'Annexure-1' on page 65 of Annual Report.

Reserve and surplus

In 2018, retained earnings of the Company stood at BDT 1,628.69 mn, against BDT 1,445.45 mn in 2017.

Dividend

The Company is actively exploring potential expansion of its production capacity. In this context, it proposes to maintain sufficient cash position to fund the expansion, if any. Hence, the Board of Directors is pleased to recommend dividend @10% in cash and @10% in stock of the paid-up capital of the Company, representing an amount of BDT 389,062,456 and 38,906,245 number of ordinary shares of the Company for the year ended December 31, 2018. The Company paid dividend @10% in cash and @10% in stock of the paid-up capital of the Company for the year 2017. No bonus shares or stock dividend has been declared as interim dividend.

Contribution to national exchequer

RAK Ceramics (Bangladesh) is committed to the timely disbursement of its direct and indirect tax obligations. During the year 2018, the Company including its subsidiaries contributed a total sum of BDT 2,610.56 mn to the national exchequer by way of corporate income tax of BDT 313.78 mn, withholding tax and VAT from suppliers and service providers of BDT 271.33 mn, VAT of BDT 1,157.56 mn, supplementary duty of BDT 674.11 mn and other duties/taxes of BDT 193.78 mn.

Risk and concerns

Risk assessment and mitigation is an integral part of the Company. The Board of Directors regularly monitor, assess and identify potential risks and threats to profitability and sustainable growth. Details of risks and concerns, including internal and external risk factors, and threats to sustainability and negative impact on the environment by the Company, is discussed in the 'Risk Control Initiatives' section on page 39 in Annual Report.

Auditors

ACNABIN, Chartered Accountants (an independent member of BAKER TILLY INTERNATIONAL), shall retire at the 20th Annual General Meeting (AGM) and, being eligible, offer themselves for reappointment. The Board also recommends their re-appointment for the year 2019. Remuneration of the Auditor will be fixed by the shareholders at this AGM.

Parent and subsidiary companies

RAK Ceramics PJSC, UAE (the Company) is the parent company of RAK Ceramics (Bangladesh). It is a UAE-based leading tiles and sanitaryware manufacturer and one of the largest ceramics' brands in the world. It has an annual production capacity of 110 mn sqm of tiles and 5 mn pcs of sanitaryware at 16 state-of-the-art plants located all over the world, including Bangladesh.

The Company serves clients in more than 150 countries through its network of operational hubs in Europe, the Middle East and North Africa, Asia, North and South America and Australia. It is listed on the Abu Dhabi Securities Exchange in the United Arab Emirates and, as a Group, it has an annual turnover of around US\$1 billion.

RAK Ceramics (Bangladesh) Limited has two subsidiaries: RAK Power Pvt. Ltd and RAK Security and Services (Pvt) Ltd, which are fully owned subsidiaries of the Company. The principal activities and status of these subsidiaries are separately disclosed in the 'Statement of Subsidiaries' on page 37 of Annual Report.

Related party transactions

The detailed list of related parties with whom transactions have taken place and their relationship as identified and certified by the management is disclosed in Related Party Disclosures under IAS-24 on page 141 of Annual Report.

Corporate social responsibility

The Company understands its responsibility towards social welfare and contributed an amount of BDT 4.05 mn as CSR and Donation during the year under review. Details of the Company's CSR activities during the year is discussed in the 'Corporate Social Responsibilities' section on page 57 of Annual Report.

Human resources and staff welfare

RAK Ceramics (Bangladesh) accords the highest priority to its human resource and staff welfare. The Company ensures a safe and healthy working environment for its employees. The Company currently has 1,866 full-time employees on its rolls and offers well-designed compensation packages for employees to encourage professionalism, stimulate team work and promote innovation, reinforced with high ethical standards.

Notably, the employees of the Company enjoy benefits of Contributory Provident Fund, Gratuity Scheme and Group Life Insurance, etc. Furthermore, the Company also established "Workers Profit Participation Fund and Welfare Fund". In year 2018, the Company contributed 5% (five per cent) of its profit before tax towards the Workers' Profit Participation and Welfare Fund, amounting to BDT 58.91 mn.

Internal control

The Board has the ultimate responsibility of establishing effective systems of internal control. To ensure robust internal controls regarding risk management, financial control and compliance legislation, the Company follows the principle of decentralisation and delegation, combined with the responsibility and accountability matrix. This has been designed to mitigate the risk of failure to achieve the objectives of the Company. The Company has also established an internal audit and compliance department that functions under an Independent Head of Internal Audit and Compliance to ensure that internal control and compliances are in place.

Board of Directors

The Board of Directors of the Company comprises 5 (five) members including 2 (two) Independent Directors. Names and profiles, including the nature of expertise in specific functional areas of the Directors of the Company are shown in the 'Directors' Profile' section on page 22 of Annual Report.

Appointment/reappointment of Directors

In accordance with the Article 93, 94 and 95 of the Articles of Association of the Company, Mr. Pramod Kumar Chand will retire from office as Director by rotation at the 20th Annual General Meeting and, being eligible, offers himself for re-election in accordance with the terms of Article 96 of the Articles of Association of the Company.

The term of Mr. S.A.K. Ekramuzzaman, as the Managing Director of the Company, expired on March 15, 2019 and was eligible for re-appointment for a further period not exceeding five years. The Board of Directors of the Company, at its meeting held on 6th February 2019, re-appointed Mr. S.A.K. Ekramuzzaman as the Managing Director of the Company for a further period of 3 (three) years, subject to approval by the shareholders at the 20th Annual General Meeting.

Remuneration of Directors, including Independent Directors

The Company did not pay any remuneration to any Director, including the Independent Directors, except Board meeting attendance fee, and 3% of profit before tax to the Managing Director.

Code of conduct

In compliance with the conditions of corporate governance, the Board has laid down a code of conduct for the Chairman of the Board, other Board members and Chief Executive Officer of the Company and annual compliance of the code is recorded accordingly.

Board of Directors' meeting and attendance

The Board of Directors of the Company met 7 (seven) times during the year under review. The number of Board meetings held and the attendance of each Director during the year 2018 is disclosed in 'Annexure-2' on page 66 of Annual Report.

Pattern of shareholding

In accordance with the conditions of corporate governance, the shareholding pattern of the Company is disclosed in 'Annexure-3' on page 67 of Annual Report.

Directors' statement on financial reporting

The Directors, in accordance with the Corporate Governance Code 2018 of the Bangladesh Securities and Exchange Commission dated June 03, 2018, confirm the following to the best of their knowledge:

- a. The financial statements prepared by the management of the Company present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- b. Proper books of account of the issuer company have been maintained.
- c. Appropriate accounting policies have been consistently applied in the preparation of the financial statements and that the accounting estimates are based on reasonable and prudent judgment.
- d. International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS), as applicable in Bangladesh, have been followed in the preparation of the financial statements, and any departure therefrom has been adequately disclosed.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. The minority shareholders have been protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly and have effective means of redress.
- g. There is no significant doubt upon the issuer company's ability to continue as a going concern.

Management's Discussion and Analysis

In accordance with the condition of corporate governance, Management's Discussion and Analysis has been duly signed by the Chief Executive Officer of the Company and is included on page 34 of Annual Report.

Declaration by CEO and CFO

In accordance with the conditions of corporate governance, a declaration on financial statements for the year ended December 31, 2018 by the CEO and CFO to the Board is included on page 91 of Annual Report.

Corporate governance

To ensure the spirit of corporate governance with accountability for inspiring confidence of investors, regulators, financiers and other stakeholders, RAK Ceramics (Bangladesh) is committed to comply with all the requirements of

Corporate Governance Code 2018 of the Bangladesh Securities and Exchange Commission. Detail about corporate governance is discussed in the 'Corporate Governance Report' on page 73 of Annual Report.

Reporting and compliance of corporate governance

The Company has complied with the conditions of the Corporate Governance Code 2018 of the Bangladesh Securities and Exchange Commission dated June 03, 2018. Detail status of compliance on corporate governance, along with the corporate governance compliance certificate has been included on page 77 of Annual Report.

Membership with BAPLC

Being a publicly traded Company, RAK Ceramics (Bangladesh) has membership with the Bangladesh Association of Publicly Listed Companies (BAPLC). A certificate of BAPLC membership has been included on page 90 of Annual Report.

Post Balance Sheet events

There are no material events which have occurred after the Balance Sheet/reporting date, the nondisclosure of which could affect the ability of users of these financial statements to make an appropriate evaluation.

Appreciation

The Board would like to take this opportunity to thank the Government authorities, shareholders, investors, bankers and employees for their continuous commitment, cooperation, confidence and support in achieving the Company's objectives.

For and on behalf of the Board of Directors,

Sd/-

(Abdallah Massaad)

Chairman

February 06, 2019